

How to Determine if Multi-Store Ownership is Right for You



The traditional pharmacy ownership model is evolving. While many envision an independent pharmacist as a person in a white coat behind the counter who also owns and operates the store, the reality is changing. Many new pharmacy owners want a hybrid model where they can step beyond the confines of the counter and manage businesses in multiple locations.

According to the 2017 NCPA Digest, 29 percent of independent community pharmacy owners have ownership in two or more pharmacies. That's up from 27 percent in 2016 and 24 percent in 2012.

Additionally, the average number of pharmacies in which each independent owner has ownership is 1.96, 1.79, and 1.76 when comparing the 2017, 2016, and 2012 NCPA Digest respectfully.

Purchasing another location has many advantages, including leveraging a wider customer base, appreciating a better cost of goods sold as a result of combined purchases and overall growth in profit as an owner. With that said, growth can come with challenges that a single-store owner may not encounter.

Here we take a deeper look into the strategic considerations of location expansion to see if entering the multi-store business model is the right path for you and your business.

IDENTIFY COMMON FACTORS

Let's consider some common themes in growth strategy: experience, cash on hand and location.

Many first-time pharmacy owners go into business with the idea of only owning one store, but we are seeing that many owners consider a second location once the dust settles from the first acquisition. That being said, time vested in your first store can impact your ability to successfully expand to a second location, so it may be prudent to wait on expansion until your first store is fully transitioned and stable.

Lessons learned in sole ownership are valuable for developing an acute business acumen. For example, learning how to navigate employee management and payroll, purchasing from wholesalers and ensuring proper operational expense control. In addition, you will most likely use a lot of your liquid cash available to invest into that first pharmacy where you work full-time.

When you compare a first-time owner with someone more rooted in their ownership tenure, you will find threads of experience that lead to better positioning for growth. Additionally, more experienced owners may be able to secure more cash to inject into the next pharmacy purchase.

Not every scenario will follow this thought process, but the general question you need to ask is "how do you grow without over-extending?" Growing through acquisition can be a great step if your current business is in a solid financial and management position.

Additionally, the physical location may also play into the successful transition of growing through acquisition. Does it make sense to purchase a store within a couple hours from your current location or do you have the management in place to operate multiple locations several states away? The impact of distance should be vetted to understand potential challenges due to your ability to be on-site or manage

day-to-day. Lastly, if crossing into another state, you should familiarize yourself with each state's board guidelines.

If these common factors look strong, you may be ready to create a formalized plan for growth.

MAP A PLAN FOR SUCCESS

Developing a road map for the future is crucial to the success of any multi-store ownership venture. You must have key areas of concern addressed, starting with how you plan to manage the store as an absentee owner, or how you adjust from being at one location full-time to having two stores to manage.

Creating a time management calendar can help. Chart two schedules comparing how much time you spend at your current pharmacy versus how you would divide time between two stores. Include what your roles and responsibilities will be at each location. If you have been a single store owner for several years and work full-time in that store, you will know how that store operates because you oversee every aspect of management. Determine how you plan to keep that level of management when you are splitting time between stores, or shift to a new management model.

Give thought to how you will hire and retain key employees at the stores. Your employees can be a tremendous asset to your ability to manage additional locations. When creating your management plan, also consider how you will motivate and incentivize your employees so retention and succession are built into the long-term vision of your business plan.

A solid management plan allows an absentee owner to develop a foundation for success and potentially gives you more flexibility to purchase additional pharmacies. This type of ownership will most likely employ the right personnel with proper procedures to ensure customer service and financial controls are being achieved at a high level when operating multiple locations, which is why starting out with a well-developed plan is crucial.

AVOID PITFALLS

Don't just buy a store to add volume. Be strategic in your approach to finding the right store when expanding through acquisition. Often times an existing owner may be approached by someone who knows of a pharmacy for sale. In this case, the owner may not necessarily be seeking a pharmacy to purchase, but considering potential expansion. In cases like these, bigger isn't always better, so it is imperative to understand the pharmacy for sale and how purchasing it may impact your current business.

When analyzing a store to purchase, ask questions about store performance. Buying a store with negative trends may require more of your time, energy, and money which needs to be factored into your evaluation. If the new store does need this extra attention, determine if you have the capacity to devote additional time to achieve desired outcomes.

Absentee ownership may not be for everyone. If you are a hands-on, detail-oriented person, you may struggle more than an owner who is more macro in their approach since you rely on your managers and employees. Also, you need to have the proper policies and procedures in place since you are not present all of the time.

Perform proper due diligence on the store being purchased and truly understand the business model and financials. Are there any concentration risks or potential loss of business of the store being

acquired? The new store should stand alone financially from the cash flow of your existing stores. Be mindful of using existing cash flow from your current business to leverage the acquisition cash flow needs. These pitfalls can sometimes be minor stumbling blocks, but if you don't have enough of a vetting process to determine how many downsides there may be, you might find the disadvantages are too great to make a successful growth model.

SEIZE ADVANTAGES

When the stars do align and you find the right store; it can be a great thing. Adding another location should help you achieve scale to leverage your entire business. This may help you reduce costs at each individual location while having a central office for bookkeeping, third-party reconciliation, and other functions such as human resources. Additionally, you may be able to aggregate your drug purchases to ensure you are maximizing any pricing discounts offered by your suppliers.

Expanding your business through acquisition and multi-store ownership should help your financial position with regards to cash flow and expenses. You start to create a global view of your business which allows you to see all of your stores together as one from an operational and financial perspective. This may allow you to acquire a pharmacy that is less-attractive to some buyers, but may be a good fit for you based on your global cash flow to make the purchase.

Having multiple locations will allow you to expand your footprint and bring your business model to more patients in, and outside, of your community. The ability to reach more patients with the level of care and customer service will enhance name recognition to grow sales and all of your locations.

When all the advantages are there, it's the perfect time to dial up the volume.

TAKE THE LEAP?

Only you will know if growing to a second, third, or fifth location is the right decision for you and your business. One key in making that determination is returning to the fundamentals in your business plan.

Have certain factors pre-determined before starting to review any pharmacy for purchase. This list may include items like annual revenue size or specific script counts. It may also be niche markets such as compounding or long-term care. In any case, you should have a clear vision of the type of store that best compliments your current business model. This allows you to make sound, strategic decisions when presented with an opportunity to purchase. Moreover, it is okay to pass on a store that does not meet your pre-determined criteria. You will thank yourself in the long run.

Growing through expansion should be a positive event within your business. Take the appropriate steps and time to increase your chances of success.



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